RECEIVED

APR 14 2000

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	
Access Charge Reform	CC Docket No. 96–262
Price Cap Performance Review for Local Exchange Carriers	CC Docket No. 94–1
Low–Volume Long Distance Users	CC Docket No. 99–249
Federal–State Joint Board on Universal Service	CC Docket No. 96–45

REPLY COMMENTS
of the
GENERAL SERVICES ADMINISTRATION

GEORGE N. BARCLAY
Associate General Counsel
Personal Property Division

MICHAEL J. ETTNER
Senior Assistant General Counsel
Personal Property Division

GENERAL SERVICES ADMINISTRATION
1800 F Street, N.W., Room 4002
Washington, D.C. 20405
(202) 501–1156

Economic Consultants:

Snavely King Majoros O'Connor & Lee, Inc.
1220 L Street, N.W., Suite 410
Washington, D.C. 20005

April 17, 2000

Table of Contents

Summary

In these Reply Comments, GSA responds to requests that the Commission adopt a "Revised Plan" by the Coalition for Affordable Local and Long Distance Services ("CALLS") to allow local exchange carriers ("LECs") under price caps to elect regulation under a different set of rules concerning interstate access charges and universal service fund ("USF") contributions.

The Revised Plan contains features that expand the scope of the original CALLS plan and provide additional benefits for various parties. Nevertheless, it is evident from the great majority of comments submitted by users, state regulators, and other carriers that the amended plan still has significant infirmities. Consequently, GSA urges the Commission to reject the Revised Plan and focus on access charge reform, price cap regulation and recovery of USF contributions in other proceedings where these important issues will receive maximum consideration.

Comments demonstrate that a bifurcated regulatory framework, as contemplated in the Revised Plan, would be anti–competitive and impractical to implement. Moreover, the revisions proposed by CALLS members have not cured significant infirmities in the original plan. For example, the Revised Plan (1) does not address structural defects in the interstate access charge system, (2) does not ensure that end users will receive the benefits of cuts in per–minute access charges on IXCs, (3) does not address the inflated levels of earnings for incumbent LECs, and (4) does not appropriately constrain the structure of charges employed for contributions to the universal service objectives.

Finally, GSA explains that deliberations to revise the plan may have raised collateral regulatory issues. These collateral issues include the possibility that adopting the Revised Plan may delay implementation of requirements for incumbent carriers to provide combinations of unbundled loops and transport elements, which would help interexchange carriers to reduce their charges for services to end users.

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	
Access Charge Reform	CC Docket No. 96–262
Price Cap Performance Review for Local Exchange Carriers	CC Docket No. 94–1
Low–Volume Long Distance Users	CC Docket No. 99–249
Federal–State Joint Board on Universal Service	CC Docket No. 96–45

REPLY COMMENTS
of the
GENERAL SERVICES ADMINISTRATION

The General Services Administration ("GSA") submits these Reply Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") in response to the Commission's Notice of Proposed Rulemaking ("Notice") released on March 8, 2000. The Notice seeks comments and replies on a revised proposal by the Coalition for Affordable Local and Long Distance Services ("CALLS") for universal service and access charge reform.

I. INTRODUCTION

On July 29, 1999, CALLS submitted its initial proposal for changes in regulatory procedures for price cap carriers to be instituted over a five-year period starting in

January 2000.[1] As a comprehensive plan for carriers electing to participate in an alternative regulatory framework, CALLS asked the Commission to:

- modify the current system of common line charges by combining carrier and subscriber line charges into a single flat–rated subscriber line charge ("SLC") for several types of access lines;
- authorize incumbent LECs to increase SLCs over the next four years;
- establish a "social compact" under which traffic–sensitive switched access rates would decline by approximately 50 percent and then be frozen at the reduced levels until July 2004;
- establish a $650 million a year Universal Service Fund ("USF") that would purportedly eliminate subsidies implicit in the existing system of interstate access charges; and
- permit limited geographical deaveraging of access charges.[2]

In response to a request by the Commission, many parties submitted formal comments and replies, and several carriers completed *ex parte* presentations on the proposals.

GSA submitted Comments and Reply Comments addressing the CALLS plan.[3] In those submissions, GSA explained that while nearly all parties pointed approvingly to some provisions of the plan, the majority of the parties demonstrated that significant modifications would be required to foster competition and provide safeguards for end users.[4] For example, several end users described changes that would be necessary to ensure that the costs of access facilities are recovered equitably from carriers and end users.[5] Also, state regulators and public advocates listed additional changes needed to

---

1 Notice, para. 1.

2 *Id.*, paras. 1—2 and Appendix C.

3 Comments of GSA, November 12, 1999; and Reply Comments of GSA, December 3, 1999.

4 Reply Comments of GSA, December 3, 1999, p. i.

5 *Id.*, pp. 5–7.

protect the interests of ratepayers.[6] Finally, competitive LECs described revisions that would be necessary to provide more opportunities for competition to develop.[7]

Considering the scope of the required changes, GSA explained that it was not practical to address the CALLS proposals as a single regulatory construct in this proceeding.[8] Thus, GSA concurred with parties who urged the Commission to reject the CALLS plan and continue to focus on issues concerning access charge reform, price cap regulation and recovery of USF contributions in other proceedings without the constraints inherent in the evaluation of a total package of regulatory proposals.[9]

On February 25, 2000, CALLS made an *ex parte* filing outlining proposed modifications to the plan.[10] On March 8, 2000, CALLS submitted a "Revised Plan" to the Commission.[11] In its memorandum supporting the Revised Plan, CALLS asserted that the changes resulted from comments and recommendations of state commissioners, end users, and public interest groups, as well as the Commission staff.[12] The Commission issued the instant Notice for comments and replies on the Revised Plan.

6 *Id.*, pp. 7–9.

7 *Id.*, pp. 9–11.

8 *Id.*, p. 11.

9 *Id.*

10 Letters to Ms. Magalie Roman Salas, Secretary, Federal Communications Commission, from Joel E. Lubin, Vice President, Federal Government Affairs, AT&T Communications; and Richard Juhnke, General Attorney, Sprint Communications, February 25, 2000.

11 Memorandum in Support of the Revised Plan of CALLS, March 8, 2000, pp. 1–5.

12 *Id.*

In addition to GSA, more than 35 parties submitted comments in response to the Notice. These parties include:

- 5 incumbent local exchange carriers ("LECs") and organizations of these carriers;
- 14 competitive LECs, interexchange carriers ("IXCs"), other carriers and carrier associations;
- 11 state regulatory agencies and groups of state regulators; and
- 7 groups of end users.

In these Reply Comments, GSA responds to the positions advanced by these parties.

II. COMMENTS DEMONSTRATE THAT THE COMMISSION SHOULD REJECT THE REVISED PLAN SUBMITTED BY CALLS.

The Revised Plan contains features that expand the scope of the original plan to provide additional benefits for various parties.[13] For example, the Revised Plan provides for:

- a $2.1 billion reduction in switched access usage rates this year, and additional cuts over the next five years;
- an interim review to verify the caps for residential and single line business SLCs;
- lower caps on SLCs;
- elimination of minimum usage charges for AT&T's basic long distance callers, and continuation of the no–minimum plan calling plan now offered by Sprint;
- rate reductions for special access services; and
- a commitment by CALLS members to work with the Commission staff to develop a consumer education plan.[14]

---

13 *Id.*

14 *Id.*, p. 1.

On April 3, 2000, CALLS members submitted comments in support of the Revised Plan. These comments asserted that the plan resolves contested issues that have challenged the Commission for many years.[15] Several additional parties submitted comments to support the Revised Plan. For example, the Alliance of Public Technology, the Communications Workers of America, and the National Association of Development Organizations submitted joint comments containing an unqualified endorsement of the Revised Plan.[16] Also, VALOR Telecommunications Southwest ("VALOR"), a newly–formed telecommunications company that has entered into purchase agreements to acquire more than one–half million access lines from an incumbent carrier, states that it would give its full support if the Revised Plan were modified further to reflect the unique circumstances of a small price cap LEC.[17]

However, in spite of the support by these parties, it is clear from the great majority of comments submitted by users, state regulators, and other carriers that the amended proposal still has significant infirmities. Even some carriers with diverse interests in interexchange and local exchange services do not believe that the Revised Plan is an acceptable compromise. For example, MCI WorldCom ("WorldCom"), which conducted a detailed analysis of the alleged benefits of the proposal, explains that the revised version offers only modest improvements over the original version of the plan.[18]

In joint comments, the Association for Local Telecommunications Services and Time Warner Telecom ("ALTS/Time Warner") provide an assessment of the Revised

15 Comments of CALLS, p. 1.

16 Joint Comments of the Alliance of Public Technology, the Communications Workers of America, and the National Association of Development Organizations, pp. 7–8.

17 Comments of VALOR, pp. 1–2.

18 Comments of WorldCom, pp. 21–30.

Plan from a different perspective. Based on this assessment, ALTS/Time Warner states:

> The Commission must be sure that this settlement does not accommodate such legacy interests in a way that offers only illusory consumer benefits and undermines the prospects for facilities–based competition.[19]

Moreover, ALTS/Time Warner explains that the Commission should not adopt any feature of the proposal that would harm consumer welfare simply because it is presented as part of a negotiated proposal.[20]

Furthermore, the National Association of Regulatory Utility Commissioners ("NARUC") notes that the CALLS proposal raises a host of issues of direct and critical concern to state regulators and to the country as a whole.[21] NARUC explains that these issues must be addressed before achieving a comprehensive solution to regulatory issues.[22]

As a major user of local and interexchange services provided by each of the CALLS members, GSA concurs with the positions expressed by WorldCom, ALTS/Time Warner and NARUC. GSA continues to urge the Commission to reject the CALLS proposal and focus on access charge reform, price cap regulation and recovery of USF contributions in other proceedings where these important issues can receive maximum consideration.

From GSA's perspective, the Revised Plan has the same procedural and substantive flaws as the previous version. The *procedural* flaws include the fact that the plan was developed by only a handful of firms among dozens of participants in

---

19 Comments of ALTS/Time Warner, p. 5.

20 *Id.*, p. 6.

21 Comments of NARUC, p. 2.

22 *Id.*

telecommunications markets. Another *procedural* flaw — probably a direct result of limited participation by carriers and end users in developing the plan — is that rules for application of the regulatory scheme to all market participants are undefined, anti–competitive, and possibly impractical to implement.

The *substantive* flaws relate to the fact that the plan falls far short of important objectives concerning access charge reform and funding of universal service initiatives. For example, the plan (1) does not address structural defects in the interstate access charge system, (2) does not ensure that end users will receive the benefits of cuts in per–minute access charges on IXCs, (3) does not address the inflated levels of earnings for incumbent LECs, and (4) does not appropriately constrain the structure of charges employed for contributions to the universal service objectives. GSA discussed each of these infirmities in prior submissions in this proceeding.[23] GSA provides additional information in the context of comments on the Revised Plan in the following sections of these Reply Comments.

III. CONTRARY TO CLAIMS BY THE PLAN'S PROPONENTS, THE RULES FOR ACCESS CHARGES AND UNIVERSAL SERVICE FUNDING SHOULD BE UNIFORM FOR ALL PRICE CAP CARRIERS

A. Only a "select" group of carriers participated in formulating the CALLS plan.

The CALLS membership includes AT&T Communications, Bell Atlantic, BellSouth, GTE, SBC Communications Corp. and Sprint Corp.[24] Although this small group of carriers collectively accounts for a substantial portion of total interexchange and local exchange revenues, the group does not fully represent the industry. For example, several large IXCs, scores of smaller IXCs, and several LECs under price cap

23 Comments of GSA, pp. 7–12; and Reply Comments of GSA, pp. 5–8.

24 Notice, Appendix C, p. 1.

regulation are not joining in the proposal. Furthermore, many other affected parties — including competitive LECs and end users — apparently were not even invited to participate in formulating the plan.

In his Statement issued with a recent Further Notice of Proposed Rulemaking in another proceeding, Commissioner Furchtgott–Roth comments on the fact that the CALLS plan was developed by an extremely limited group of parties, and indicates that a number of parties with interests in the proceeding were not allowed to participate in the discussions.[25] Indeed, Allegiance Telecom ("Allegiance") concurs with these observations from its own perspective as a competitive LEC, explaining that competitive LECs have not been invited to participate in CALLS.[26]

GSA agrees with Allegiance that without competitive LEC input, the Revised Plan cannot be a "consensus industry proposal" as the proponents suggest.[27] Coupled with the fact that many incumbent LECs also did not participate, there is ample reason to reject the proposal based on the restricted scope of the group from whom inputs were sought.

B. A bifurcated regulatory framework would be anti–competitive and impractical to implement.

In addition to the limited scope of participation in design, the CALLS plan is expressly intended to apply solely to carriers who voluntarily elect to participate.[28] The absence of numerous carriers from the proposing group foretells that many carriers providing interexchange and local exchange services would not ultimately be subject to

---

25 *In the Matter of 1998 Biennial Regulatory Review — Review of Depreciation Requirements for Incumbent Local Exchange Carriers*, CC Docket No. 98–137, released April 3, 2000, Concurring Statement of Commissioner Harold Furchtgott–Roth, p. 1.

26 Comments of Allegiance, pp. 1–3.

27 *Id.*

28 *Id.*, para. 1.

the provisions of the plan. Thus, the proposed "settlement" would possibly apply to only a few firms that are among the largest in the industry.[29]

Proponents of the Revised Plan accept its elective form. For example, the United States Telecom Association ("USTA") states that it supports the modified CALLS submission "as a voluntary option for LECs."[30] Similarly, Global Crossing asserts that the Commission should give incumbent price cap LECs the opportunity to opt into either the CALLS plan or the existing regulatory scheme as modified by the outstanding rulemaking on the productivity offset factor.[31]

GSA does not concur with assertions that a bifurcated regulatory framework would be pro–competitive or practical to implement. GSA has explained that the Commission should employ the same structure of interstate access charges and universal service funding requirements for all LECs under price caps.[32] Also, GSA has explained that the Commission should require LECs to offer access to all IXCs under the same rates, terms and conditions.[33]

In comments on the Revised Plan, state regulators strongly urge the Commission not to employ a voluntary bifurcated regulatory plan for interstate services of price cap LECs. For example, the Michigan Public Service Commission states, "It is very unclear as to how this proposal will work effectively, assure a neutral and competitive marketplace, and assure benefits to consumers, if it is optional for providers to participate."[34] In summary, the Michigan regulators conclude that it is important to

---

29 Reply Comments of GSA, December 3, 1999, p. 4.

30 Comments of USTA, p. 1.

31 Comments of Global Crossing North America ("Global Crossing"), p. 13.

32 Comments of GSA, November 12, 1999, pp. 5–6; and Reply Comments of GSA, December 3, 1999, p. 4.

33 *Id.*

34 Comments of the Michigan Public Service Commission, p. 2.

implement access charge and universal service reforms that apply to all consumers and service providers.[35]

Other state regulators also express concerns that consumers will receive limited benefits if the plan is not employed for all carriers. For example, the Missouri Public Service Commission ("MoPSC") notes that the Revised Plan includes letters submitted by CALLS members AT&T and Sprint in which these carriers commit to eliminating the monthly minimum charges in the their basic long distance service plans for the next five years.[36] These commitments are apparently contingent on reductions in access charges paid by these two IXCs. MoPSC explains that since only two IXCs are participating in the plan, other IXCs may be placed at a competitive disadvantage.[37] Moreover, customers of those IXCs will not have opportunities to realize similar benefits.[38]

The Montana Public Service Commission ("Montana PSC") also submits comments in a similar vein. The Montana PSC states:

> If the CALLS proposal or Revised Plan includes acceptable solutions, which appears uncertain at best, it would seem that the national interest would be better served if the FCC were to present and face the CALLS Revised Plan, or an entirely new proposal addressing the subject matter, as proposed national policy rather than a policy applying only to willing carriers in parts of the nation.[39]

---

35 *Id.*

36 Comments of the Missouri Public Service Commission, p. 2.

37 *Id.*

38 *Id.*

39 Comments of the Montana PSC, p. 2.

Moreover, the Montana PSC states that the ultimate benefits of the CALLS Revised Plan will be difficult for the FCC and the public to predict accurately, because the CALLS members' commitments and estimates are vague and conditional.[40]

GSA concurs with the assessments of the state regulators in this proceeding. Thus, GSA urges the Commission to reject the Revised Plan because it does not provide a clear path towards more competition or contain firm commitments that all of the nation's consumers will receive benefits.

IV. COMMENTS SHOW THAT THE PROPOSED REVISIONS DO NOT ADDRESS IMPORTANT REGULATORY ISSUES.

A. Revisions have not cured infirmities concerning interstate access charges and funding for universal service initiatives.

1. Impact of Access Charge Reductions

The centerpiece of the Revised Plan is the provision that incumbent LECs will implement reductions in their revenue requirements, in addition to those resulting from "normal operation" of the price cap mechanism, as necessary to provide an overall reduction of $2.1 billion in the switched access charges by all of the participants.[41] While this additional first–year revenue reduction in a positive change, GSA observes that its significance should not be overstated.

Because of the large number of variables that impact access charges, the actual overall impact of the CALLS proposals is difficult to predict. However, a detailed analysis by WorldCom shows that total incumbent LEC revenues over the five years of the plan would still be greater than their revenues over the same period under the current rules.[42] The Florida Public Service Commission ("Florida") also explains that

40 *Id.*

41 Memorandum in Support of the Revised Plan of CALLS, March 8, 2000, pp. 1–5.

42 Comments of WorldCom, p. 22 and Attachment 3.

considering all likely changes in access charges, "customers could pay more under the CALLS plan than they would with the status quo."[43]

In its analysis, WorldCom explains that the Revised Plan does not reduce the inflated revenue levels of the incumbent LECs as much as might be anticipated because of counterbalancing factors.[44] For example, the Revised Plan would eliminate a portion of local switching costs, rather than transferring these costs to the local switching basket.[45] However, the beneficial effect is significantly counterbalanced because a 3.0 percent productivity offset factor ("X–factor") would be applied to the special access basket, rather than the 6.5 percent factor applied under the current rules or under the original CALLS plan.[46]

The LECs do not provide data from which to estimate their earnings under various likely economic scenarios. The LECs' actual earnings, of course, will depend on productivity achievements in relation to changes in the Gross Domestic Product. Moreover, the Revised Plan may give incumbent LECs the opportunity to take back part of the primary concession they have made, because the Revised Plan reinstates the Low–End adjustment mechanism (absent from the original version) that would be effective in the event of LEC earnings below the target level.[47]

The probable effect on message toll rates paid by end users is even more difficult to estimate because impacts on end users also depend upon the actions of IXCs. These actions are uncertain. The two IXC members of CALLS commit to eliminating minimum charges for low–volume toll users and assert that they will pass

---

43 Comments of Florida, p. 2.

44 *Id.*, p. 22.

45 Memorandum in Support of the Revised Plan of CALLS, March 8, 2000, pp. 1–5.

46 *Id.*; and Comments of WorldCom, p. 23.

47 *Id.*

savings to their own customers if they receive specified minimum reductions.[48] However, state regulators express concerns that these commitments will be met. For example, the Iowa Utilities Board ("Iowa") observes that unless LECs implement $2.1 billion in (annualized) interstate switched access reductions by July 1, 2000, consumers will receive no benefits from the Revised Plan.[49] As a consequence, these regulators urge the Commission to adopt procedures to ensure that these commitments cannot be avoided.[50]

The Public Service Commission of Wisconsin ("Wisconsin") raises similar concerns in questioning exactly how the Commission will be able to enforce the commitments for flow–through by the two IXCs who are CALLS members.[51] The Wisconsin regulators make an additional observation — also relevant from GSA's perspective — that the Commission must establish a practical mechanism for tracking the revenue effects of changes in access charges through IXCs to end users. This mechanism is required in order to ensure that consumers benefit from all reductions in usage–sensitive and non–usage sensitive access rates.[52]

2. *Structure of Monthly Access Charges*

In its previous Comments and Reply Comments, GSA described revisions in the structure of monthly access charges that are necessary to balance the impacts of the plan on different groups of end users.[53] For example, the CALLS plan combines subscriber line charges ("SLCs") and Presubscribed Interexchange Carrier Charges

---

48 Memorandum in Support of the Revised Plan of CALLS, March 8, 2000, pp. 1–5

49 Comments of Iowa, p. 5.

50 *Id.*

51 Comments of Wisconsin, p. 3.

52 *Id.*, pp. 34.

53 Comments of GSA, November 12, 1999, pp. 7–12; and Reply Comments of GSA, December 3, 1999, pp. 5–6.

("PICCs") for all groups of access facilities <u>except</u> business multi–lines.[54] GSA urged the Commission to adopt a plan that also combines SLCs and PICCs for business multi–lines so that the non–traffic sensitive revenue requirements for all types of access facilities can be billed directly to end users.[55]

Although the Revised Plan provides for somewhat greater reductions in the per–minute access charges for IXCs electing to participate, there are no changes in the structure of fixed monthly access charges paid directly by end users. A number of parties explain that this is an important defect of the Revised Plan. For example, U S WEST describes the "patchwork quilt of explicit and implicit subsidies, including above–cost switching rates, the primary and single–line business PICC, the multi–line business PICC, and the multi–line business and second–line residential SLCs."[56] To alleviate these inequities, U S WEST urges the Commission to modify further the CALLS proposal in order to provide for equal multi-line business SLC and PICC reductions, as well as accelerated SLC and PICC deaveraging by geographical area.[57]

The Ad Hoc Telecommunications Users Committee ("Ad Hoc") also urges the Commission to treat business multi–lines the same as other groups of lines by requiring that SLCs and PICCs be combined for these facilities as well.[58] Ad Hoc explains that this change is especially significant for its members because the past practices of long distance carriers indicate that they will not flow through LECs' reductions in multi–line business PICCs.[59]

---

54 *Id.*

55 *Id.*.

56 Comments of U S WEST, pp. 10–11.

57 *Id.*

58 Comments of Ad Hoc, p. 9.

59 *Id.*

GSA has previously described the problems that end users such as Federal agencies and members of the American Petroleum Institute have experienced with billings of PICCs.[60] Similar problems are confirmed by Ad Hoc's comments in this proceeding.[61] Moreover, comments by the American Public Communications Council ("APCC") describe an additional problem concerning billing of PICCs.[62]

APCC reports that pay telephones are generally considered to be business multi–lines regardless of how many telephones are present at a location.[63] Thus, pay telephone lines are subject to the high SLCs and PICCs effective for business multi–lines throughout the nation.[64] APCC notes that the CALLS plan remains flawed by perpetuating this disparity, and urges the Commission to reject the plan until the disparity is eliminated.[65]

In summary, GSA urges the Commission to find that observations by Ad Hoc, APCC, and other parties provide additional support for removing structural disparities in interstate access charges that are not addressed in the Revised Plan.

3. Requirements for Universal Service Support

In its Comments and Reply Comments on the initial plan, GSA explained that CALLS also failed to specify requirements and procedures for funding universal service initiatives. For example, GSA noted that the plan's proponents:

- do not document the need for a $650 million additional universal service fund;

60 Reply Comments of GSA, December 3, 1999, p. 4.

61 Comments of Ad Hoc, pp. 9–10.

62 Comments of APCC, pp. 2–3.

63 *Id.*

64 *Id.*, p. 2.

65 *Id.*

- fail to identify the services that the plan is intended to support; and
- do not specify their assumptions regarding continuation of the present high–cost and low–income support programs.[66]

The most recent comments show that the Revised Plan continues to have the same deficiencies regarding funding of universal service initiatives.

For example, Focal Communications ("Focal") observes that the CALLS members claim that the $650 million fund will replace "support that is currently implicit in interstate access charges."[67] However, Focal notes that CALLS has not provided any basis to conclude that the proposed $650 million fund has a relationship to the implicit support contained in interstate access charges.[68] In summary, Focal states:

> The proposal is an attempt by CALLS to guarantee access revenues that may otherwise be lost with increasing competition by removing them from access charges and vesting them permanently in a universal service fund.[69]

Issues concerning the basis of the size of the proposed fund are also raised by other parties. For example, Level 3 Communications states that CALLS' attempts to justify the $650 million fund "proves that their figure is no more than a compromise between CALLS' members."[70]

Moreover, in its comments on the Revised Plan, the State Members of the Federal–State Joint Board on Universal Service ("State Members") state that the $650 million in new universal service support is more than three times the need–based support that is now provided to high–cost non–rural companies according to the Joint

---

66 Reply Comments of GSA, December 3, 1999, citing Comments of the Public Utilities Commission of Ohio, November 12, 1999, pp. 2–3.

67 Comments of Focal, p. 15, citing Memorandum in Support of the Revised Plan of CALLS, March 8, 2000, p. 3.

68 Comments of Focal, p. 16.

69 *Id.*

70 Comments of Level 3 Communications, p. 3.

Board's most recent decision.[71] Furthermore, the State Members explain that a $650 million obligation in the Revised Plan could constrain the future ability of the Joint Board to recommend other important universal service programs, such as support for rural carriers or underserved areas.[72]

The Joint Board is highly qualified to address the magnitude of universal service support requirements because it has worked with this issue for many years. GSA concurs with the concerns expressed by its State Members. Thus, GSA urges the Commission to evaluate the requirements for universal service support outside of the context of the aggregate regulatory plan proposed by CALLS.

4. Structure of Funding for Universal Service Initiatives

In addition to these issues concerning the magnitude of universal service support, GSA explained in its Comments that the sources of funding were not adequately constrained in the original CALLS plan.[73] For example, GSA noted that incumbent LECs would be permitted to apply the rate element to recover $650 million in universal service support either on a per–line basis or as a percentage of interstate retail revenues.[74] Moreover, incumbent LECs would also be allowed to combine the USF rate element with other rate elements employed in billing end users.[75]

The Revised Plan does not remedy the infirmities concerning the structure of universal service charges. In its comments, Ad Hoc addresses this point, and explains

---

71 Comments of State Members of Joint Board, p, 5.

72 *Id.*, p. 6.

73 Comments of GSA, November 12, 1999, p. 11.

74 *Id.*

75 *Id.*

that the Commission should not accept a plan that does not provide constraints on the universal service rate structure for two important reasons.[76]

First, Ad Hoc explains that incumbent LECs still possess significant market power.[77] With this power, the Commission "cannot rely on market forces to discipline the incumbent carriers' universal service contribution recovery practices."[78] Second, Ad Hoc notes that it is not sound economic policy to allow incumbent LECs to recover the costs of a non–traffic sensitive network element — the local loop — through traffic–sensitive charges such as a percentage of revenues.[79] Ad Hoc explains that this framework distorts rate structures and discourages competitive entry.[80]

From its perspective as an end user, GSA has addressed both objections that Ad Hoc raises with the Revised Plan.[81] As GSA explained, the ultimate impacts of usage–based assessments for universal service initiatives are higher costs and fewer alternatives for end users.[82] Since the modifications by CALLS do not remove these barriers to competition, the Commission should reject the Revised Plan.

B. Deliberations to revise the plan have raised collateral regulatory issues.

It addition to infirmities that carry over from the initial version of the CALLS Plan, it appears that some additional threats to competition have emanated during negotiations to formulate the plan. Commissioner Furchtgott–Roth explains in his Concurring Statement referenced above that incumbent LEC members of CALLS have

---

76 Comments of Ad Hoc, p. 10.

77 *Id.*

78 *Id.*

79 *Id.*

80 *Id.*, p. 11.

81 Comments of GSA, November 12, 1999, p. 11.

82 Id.

raised issues concerning the circumstances under which carriers may obtain combinations of unbundled loops and transport elements.[83] These issues were apparently introduced in connection with the carriers' negotiations concerning provisions of the CALLS plan.[84]

In comments responding to the Notice, WorldCom also addresses combinations of unbundled loops and transport elements.[85] This carrier states that one of the issues that may have been introduced in the deliberations to develop the Revised Plan concerns the possibility that the Common Carrier Bureau will support at least a one–year extension of the use restriction on unbundled loop and transport combinations adopted in Docket No. 96–98.[86]

WorldCom explains that this issue is important for consumers because the availability of combinations of unbundled network elements ("UNEs") is a significant determinant of the costs of access to LEC facilities.[87] Unavailability of these combinations would significantly increase the costs that IXCs incur to provide special access services. Indeed, WorldCom observes that an indefinite extension in the use restriction — or even a firm extension until at least mid–2001 — should be a controlling factor in assessment of the plan "because it is too high a price for the Commission to pay for the Revised Plan."[88]

83 *In the Matter of 1998 Biennial Regulatory Review — Review of Depreciation Requirements for Incumbent Local Exchange Carriers*, CC Docket No. 98–137, released April 3, 2000, Concurring Statement of Commissioner Harold Furchtgott–Roth, p. 2.

84 *Id.*

85 Comments of WorldCom, pp. 5–7.

86 *Id.*, citing *In the Matter of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket No. 96–98, Supplemental Order, released November 24, 1999.

87 Comments of WorldCom, pp. 5–7.

88 *Id*, p. 7.

WorldCom also notes a second potential issue that may be linked to the CALLS plan. This issue involves the possibility that the Common Carrier Bureau will support changes to the Commission's depreciation rules in connection with the "settlement" proposed by CALLS.[89]

The Commission has just released a Further Notice of Proposed Rulemaking dealing with the incumbent carriers' depreciation practices, as well as their continuing property record ("CPR") audits.[90] GSA is submitting Comments in response to that Further Notice concurrently with these Reply Comments. Therefore, GSA will not burden the record with a reiteration of its positions on deprecation and CPR audits herein. However, the significance for the present proceeding is that the Revised Plan raises additional questions that must be addressed before the Commission can act in response to the claims by the plan's authors.

89 *Id.*

90 *In the Matter of 1998 Biennial Review: Ameritech Corporation Telephone Operating Companies' Continuing Property Records Audit*, CC Docket Nos. 98–137 and 99–117, Further Notice of Proposed Rulemaking, released April 3, 2000.

V. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Reply Comments.

Respectfully submitted,

GEORGE N. BARCLAY
Associate General Counsel
Personal Property Division

Michael J. Ettner

MICHAEL J. ETTNER
Senior Assistant General Counsel
Personal Property Division

GENERAL SERVICES ADMINISTRATION
1800 F Street, N.W., Rm. 4002
Washington, D.C. 20405
(202) 501–1156

April 17, 2000

CERTIFICATE OF SERVICE

I, CHERYL D MCCLAIN, do hereby certify that copies of the foregoing "Reply Comments of the General Services Administration" were served this 17th day of April, 2000, by hand delivery or postage paid to the following parties.

The Honorable William E. Kennard,
Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

The Honorable Harold Furchtgott-Roth,
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

The Honorable Susan Ness,
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

The Honorable Gloria Tristani
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C 20554

The Honorable Michael K. Powell
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C 20554

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W. Counter TWA325
Washington, D.C. 20554

International Transcription Service
1231 20th Street, N.W.
Washington, D.C. 20036

Ms. Wanda Harris
Competitive Pricing Division.
Common Carrier Bureau
Federal Communications Commission
445 12th Street, S.W
Washington, DC 20554

Editorial Offices
Telecommunications Reports
Communications Daily
1333 H Street, N.W., Room 100-E
Washington, D.C. 20005

Ms. Edith Herman
Senior Editor
Communications Daily
2115 Ward Court, N.W.
Washington, D.C. 20037

Cheryl D McClain